

Belize

1. General trends

The continued impact of the floods of 2008 and the contagion from recessionary conditions in major markets led to a retreat from sound growth in 2008 (3.8%) to no growth (0%) in 2009. Nevertheless, this leaves Belize as one of the better performers in the Caribbean, given the pervasive downturn in the region. The primary goods and services sectors took the brunt of the impact, with contractions of 2.4% and 1.4%, respectively. Owing to lower fuel and food prices and sluggish internal demand, Belize experienced deflation of 0.4% in 2009 following price rises of 4.4% in 2008.

Despite recessionary conditions, the government had very little flexibility to implement countercyclical fiscal policy given high debt levels and the anticipated ratcheting up of interest rates on its adjustable-rate debt in the near term. Therefore, capital spending actually contracted by 20% and was not a source of stimulus as it was in some other countries of the region. In spite of the economic slowdown, monetary policy was neutral in 2009 as benchmark rates were held steady. The current account deficit contracted as a result of a sharp fall in imports due to lower fuel and other commodity prices, which offset reduced inflows from tourism and current transfers.

The economy is expected to improve in 2010, with growth of around 1.5% driven by an improvement in agriculture, a rebound in stay-over tourism and an expansion in oil production. The national budget of March 2010 projected an overall deficit of 2.8% of GDP for fiscal year 2009/2010,¹ up from the budgeted 1.7% of GDP, as a result of lower revenue inflows. The balance-of-payments current account deficit will expand to 8.3% of GDP in 2010, reflecting higher oil prices, as Belize is a net oil importer, and also rising import demand.

2. Economic policy

(a) Fiscal policy

The overall fiscal² balance moved from a surplus of 1.5% of GDP in 2008 to a deficit of 2.9% of GDP in 2009. A significant shortfall in revenue stemming from lower petroleum revenues associated with a slump in petroleum prices and reduced customs receipts due to fewer imports were the major causes of the deficit increase. Tax receipts declined by 6.4% to US\$ 577 million, partly due to a US\$ 18.1 million fall in petroleum tax revenue.

Growth in total expenditure was contained to 2%, as an increase in current spending was partly offset by a sharp fall in capital expenditure. Current spending increased by 7.1%, owing in large part to a 9.3% rise in the wage bill that resulted from the resumption of incremental increases to civil servant pay in 2009. Outlays on goods

¹ The fiscal year in Belize runs from April to March.

² Fiscal data are calculated on an annual basis.

Table 1
BELIZE: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
Annual growth rates^b									
Gross domestic product	5.0	5.1	9.3	4.6	3.0	4.7	1.2	3.8	-0.0
Per capita gross domestic product	2.5	2.7	6.9	2.3	0.8	2.5	-1.2	1.7	-2.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.4	0.5	38.9	9.5	3.0	-6.4	-20.7	0.1	...
Mining and quarrying	3.3	-5.4	0.0	5.7	-6.5	3.4	15.6	19.2	...
Manufacturing	-0.4	1.5	-0.6	12.2	0.9	30.5	3.8	4.9	...
Electricity, gas and water	0.3	2.7	8.5	-1.5	-0.5	41.3	2.4	3.0	...
Construction	1.3	3.7	-17.8	4.5	-3.6	-1.9	-3.0	35.8	...
Wholesale and retail commerce, restaurants and hotels	8.4	3.7	3.8	1.6	5.2	0.8	2.3	2.6	...
Transport, storage and communications	11.9	11.3	8.6	5.0	8.8	3.5	13.1	2.5	...
Financial institutions, insurance, real estate and business services	6.2	17.8	16.9	5.5	3.5	8.2	5.1	7.7	...
Community, social and personal services	4.2	3.9	5.8	2.1	2.5	-2.0	4.2	4.0	...
Gross domestic product, by type of expenditure									
Final consumption expenditure	9.2	7.6	3.5	-0.3	-0.9	-2.3	4.8	-0.5	...
Government consumption	6.1	13.1	5.3	-0.9	4.0	-0.8	11.1	5.1	...
Private consumption	9.7	6.7	3.2	-0.2	-1.8	-2.6	3.6	-1.7	...
Gross capital formation	-6.2	-5.3	-14.0	-5.4	8.0	1.8	5.0	37.0	...
Exports (goods and services)	4.9	9.6	13.2	5.7	7.7	15.2	-6.2	2.8	...
Imports (goods and services)	-0.8	2.6	2.1	-7.5	6.7	0.5	-0.3	13.5	...
Millions of dollars									
Balance of payments									
Current account balance	-184	-166	-176	-156	-151	-25	-52	-132	-93
Goods balance	-209	-187	-207	-173	-231	-185	-216	-308	-239
Exports, f.o.b.	269	310	316	307	325	427	426	480	382
Imports, f.o.b.	478	497	522	481	556	612	642	788	621
Services trade balance	43	44	70	88	143	211	234	217	183
Income balance	-67	-69	-85	-117	-114	-125	-159	-153	-117
Net current transfers	48	47	46	46	51	74	97	112	80
Capital and financial balance ^c	181	160	146	125	139	75	75	190	141
Net foreign direct investment	61	25	-11	111	126	108	142	188	95
Other capital movements	120	135	158	13	13	-33	-67	2	46
Overall balance	-3	-5	-30	-31	-12	50	23	58	47
Variation in reserve assets ^d	3	5	30	31	12	-50	-23	-58	-47
Other external-sector indicators									
Net resource transfer	15	15	14	14	14	14	14	14	14
Gross external public debt	495	652	822	913	970	985	973	958	1,016
Average annual rates									
Employment									
Unemployment rate ^e	9.1	10.0	12.9	11.6	11.0	9.4	8.5	8.2	13.1
Annual percentages									
Prices									
Variation in consumer prices (November-November)	...	3.2	2.3	3.1	4.2	2.9	4.1	4.4	...
Nominal deposit rate ^f	4.4	4.3	4.8	5.2	5.4	5.8	5.9	6.2	-0.4
Nominal lending rate ^g	15.5	14.8	14.4	13.9	14.2	14.2	14.3	14.2	14.1
Percentages of GDP									
Central government									
Total revenue ^h	27.7	30.4	22.8	24.3	23.9	24.8	30.0	29.5	26.3
Current revenue	26.2	28.9	21.6	21.4	22.9	23.3	25.5	26.8	24.6
Tax revenue	23.9	26.5	19.0	19.3	20.5	21.2	22.6	22.7	21.7
Capital revenue	0.7	0.2	0.9	1.3	0.3	0.4	1.1	0.3	0.4
Total expenditure	39.2	34.0	31.8	30.6	30.7	26.7	31.2	27.9	29.1
Current expenditure	30.6	26.8	20.0	22.4	25.2	22.7	24.9	22.7	24.9
Interest	10.1	6.3	4.0	5.8	6.7	5.9	5.3	3.9	3.6
Capital expenditure	8.7	7.1	11.9	8.2	5.5	4.0	6.3	5.2	4.3
Primary balance	-1.5	2.8	-5.0	-0.5	-0.1	3.9	4.1	5.4	0.8
Overall balance	-11.6	-3.6	-9.0	-6.3	-6.8	-1.9	-1.2	1.5	-2.9

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
	Percentages of GDP								
Money and credit¹									
Domestic credit	56.6	51.0	57.2	64.1	63.3	64.8	70.5	71.1	75.2
To the public sector	11.9	3.2	5.7	10.6	9.3	8.9	9.3	7.5	7.6
To the private sector	44.6	47.8	51.5	53.5	54.0	55.8	61.2	63.6	67.6
Liquidity (M3)	59.7	57.0	55.7	59.1	59.6	62.0	68.0	72.4	78.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 2000 prices.

^c Includes errors and omissions.

^d A minus sign (-) denotes an increase in reserves.

^e Percentage of the economically active population, nationwide total.

^f Rate for savings.

^g Weighted average rate for loans.

^h Includes grants.

ⁱ The monetary figures are end-of-year stocks

and services also expanded amid higher payments to contractors for materials and supplies.

With the sharp fall in the primary surplus from 5.4% of GDP in 2008 to 0.8% of GDP in 2009, the savings required for capital projects were not available. Combined with difficulties in drawing down funds to implement some externally funded projects, this led to a 20% fall in capital spending. The capital spending that did occur was focused on infrastructure works, including the completion of the Southern Highway and housing.

The overall deficit, including grant receipts, improved markedly from 9.1% of GDP in the first quarter of 2009 to 4% of GDP in the first quarter of 2010, owing to a sharp increase in revenues and a moderate decline in spending. For calendar year 2010, the overall fiscal deficit is projected to be 2.7% of GDP, but if the pattern for the first quarter continues, the deficit could exceed this projection.

High public-sector debt remains a major challenge, leaving the government with limited fiscal headroom. In 2009, public debt increased by 4.6% to 87.2% of GDP (US\$ 2,361.2 million), up from 83.1% of GDP in 2008. External debt increased by over 6% to 75% of GDP.

(b) Monetary and exchange-rate policy

The country's monetary policy stance remained neutral despite the slowdown in activity. Surging excess liquidity in the banking system meant that a change in the policy-based cash and liquid asset reserve requirements was expected to have little effect on commercial bank interest rates. Indeed, the weighted average interest rate spread increased by 11 basis points as the weighted average

deposit rate fell by 23 basis points to 6.12%, exceeding the 12 basis point decline in the weighted average lending rate to 13.98%.

With economic activity sluggish, growth in the broad money supply slowed to 6.4% in 2009, half the pace of 2008. Credit to the private sector increased by 4.1%, the smallest rise in 17 years, and this credit was mainly allocated to construction, electricity generation and beverage production. Foreign assets expanded by 32.8%, bolstered by inflows from bilateral and multilateral sources, including loans from the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB) and BZ\$ 56.1 million in new Special Drawing Rights (SDRs) under the International Monetary Fund (IMF) global initiative to assist countries during the recession.

The banking system in Belize had limited exposure to the risky instruments that helped to trigger the global financial crisis. Accordingly, it remains largely stable and sound and experienced only a nominal increase in non-performing loans from 10.7% of the total loan portfolio in 2008 to 10.8% in 2009.

In 2009, the central bank implemented the first phase of its monetary policy reform aimed at improving its ability to manage liquidity in the banking system and allowing a gradual move away from reliance on reserve requirements towards open market operations. Two important measures were implemented: liberalization of the short-term yield on treasury bills, and the setting of a ceiling on the interbank lending rate of 11%, thus allowing banks to trade below this rate. Moreover, the pegged exchange rate depreciated marginally, averaging BZ\$ 1.97 to US\$ 1 between end-December 2009 and 27 June 2010.

3. The main variables

(a) Economic activity

The lingering effects of the 2008 floods on agricultural output and the fallout from the global recession led to stagnant growth of 0% in 2009. The bulk of the impact was felt during the first half of the year, with the economy staging a mild recovery in the second half. Activity in wholesale and retail trade contracted as a result of a fall-off in trade in the Commercial Free Zone³ and weak domestic consumption due to reduced remittance inflows and increased unemployment. The hotel and restaurant sector was affected by a 5.6% decline in stay-over tourist arrivals (to 221,654) and a fall in the number of nights spent in the country. This led to a 15.6% slump in hotel room revenue, a direct result of weakened demand from the United States market, which accounts for about two thirds of visitors to Belize. During the first quarter of 2010, however, stay-over and cruise passenger visitors were up by 3.7% and 43.5% respectively, pointing to some recovery in tourism.

Agriculture (11.7% of GDP) posted a decline of 2.5% in 2009, the largest contraction in the last four years. Performance was dampened by the fallout from the floods of 2008, which led to a decline in value added for the major export crops. Sugar cane output fell by 6.3% to 917,728 long tons, the smallest harvest in 22 years, and citrus output was down by 7.7%. Only fisheries reported higher value added in 2009, with output rising by 9.4% on the back of increased production of farmed shrimp and conch.

Manufacturing output (12% of GDP) improved amid a 24.3% expansion in petroleum production to 1,608,864 barrels, an average of 4,390 barrels a day, as three additional wells were brought on line.

(b) Prices, wages and employment

Inflation moderated significantly from its 2008 level of 4.4%, resulting in deflation of 0.4% in 2009. Food prices declined by 4.5% following an increase of 15.5% in 2008. This decline was partially due to a fall in commodity prices associated with lower demand. Transport and communications costs rose by 8.6%, reflecting the

³ The Commercial Free Zone is an export processing zone that is outside the national customs territory, with restricted access for nationals of Belize.

increase in fuel prices from September to November after a decline of 57% between January and August.

Sluggish internal and external demand led to an increase in unemployment from 8.2% in May 2008 to 13.1% in April 2009, reversing a five-year decline. Nevertheless, the recovery in activity in the second half of 2009 resulted in a 4.7% increase in jobs, causing unemployment to fall to 12.6% by September 2009.

(c) The external sector

The balance-of-payments current account deficit narrowed from US\$ 132.4 million (9.7% of GDP) in 2008 to US\$ 93.3 million (7% of GDP) in 2009. The decline in the trade deficit and profit outflows more than offset lower net tourism and current transfer inflows.

The trade deficit contracted by 22.6% to US\$ 238.7 million, owing to a 21.3% fall in imports that outweighed the 20.5% decline in exports. Imports decreased owing to a tapering off of capital imports for projects that occurred in 2008 and a fall in fuel and other commodity prices. Merchandise exports plummeted because of lower export volumes and values for agricultural exports and lower sales in the Commercial Free Zone. Petroleum exports expanded by 23.2% to 1,261,600 barrels, but an average price decline of 57% led to a sharp cut in receipts to US\$ 120.6 million. Nevertheless, petroleum remained the main export earner.

The services account surplus narrowed by 15.5% to US\$ 183.2 million (13.8% of GDP) as tourism receipts diminished with the fall in stay-over tourist numbers and the drop in inflows from transportation and business services.

A 50% drop in foreign direct investment in petroleum, tourism and agriculture plus net external loan repayments by the private sector resulted in a 26% fall in the capital and financial account surplus. Gains in inflows came from the IMF disaster assistance loan and US\$ 28.1 million SDR allocation. Gross international reserves rose to US\$ 313.7 million, covering 4.8 months of goods and services imports.

The current account deficit is expected to widen to US\$ 115.1 million (8.3% of GDP) in 2010 as import growth stemming from higher domestic demand and fuel prices outstrips growth in exports of goods and tourism services.